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RUEHIN/AIT TAIPEI 9509
RUEAUSA/DEPT OF HHS WASHDC
RHMFIUU/DEPT OF HOMELAND SECURITY WASHINGTON DC
RUCPDOG/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEAWJL/DEPTJUSTICE WASHDC
RHMCSUU/FBI WASHINGTON DC
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SUBJECT: Local Focus on Brand Promotion Leads to Stronger IPR
Enforcement and Economic Growth

REF: A) GUANGZHOU 438, B) GUANGZHOU 267

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1. (SBU) Summary: Next to industrial powerhouses like Shenzhen and Dongguan, Shunde is small potatoes among Pearl River Delta cities. But its brand promotion efforts have yielded impressive results. The town boasts market leaders in the household appliance industry that rank among China's top 50 enterprises, and local firms own some of China's best-known domestic trademarks. City officials took an active approach in encouraging the development of local intellectual property (IP) with awareness programs and subsidies. The enforcement of intellectual property rights (IPR) has strengthened as industry and government have come to more fully appreciate the economic value of IP, which has been central to the success of Midea and Galanz, Shunde's two appliance manufacturing giants. Shunde officials believe that their IP promotion practices can be a model for other jurisdictions in south China. End summary.

A Fresh Economic Start for Shunde

2. (SBU) The city of Shunde is one of south China's great success stories when it comes to establishing local brand names. According to Administration for Industry and Commerce (AIC) Deputy Section Chief Li Yingfeng, the city's economic transformation began in 1992. It was then that the Shunde Communist Party Committee and

government - perhaps under the impact of Deng Xiaoping's southern tour - decided to "start business for the second time." The city's growth was already heavily reliant on local companies rather than foreign direct investment, so the government's new local brand promotion strategy seemed to be a natural extension of the area's comparative advantages. With a population of approximately 1.8 million people, the city lacks the size and resources of many neighboring communities, but is well-known as a center of certain kinds of industries, especially household-appliance manufacturing.

13. (U) Sixteen years after the government's fresh start, the city's economic rebirth looks like an unqualified success. Midea and Galanz, two appliance makers headquartered in Shunde, were ranked 7th and 39th on Forbes 2008 list of top Chinese enterprises. Overall, Shunde firms have registered more than 30,000 Chinese trademarks. Many have been formally designated "famous trademarks" at the national and provincial level. The city is also a leader in promoting new trademarks based on geographic indicators.

Focus on Intellectual Property Development

13. (SBU) City officials attribute the success to a belief in the economic value of intellectual property. An interagency group of officials who met with econoff emphasized that this led to concrete strategies to support development of local brands. For example, Shunde's government has initiated numerous awareness programs that include hosting training seminars, promoting local trade fairs and leading delegations to international trade fairs. The city also sponsors an annual International Patent and Brand Expo. Post's IPR

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Officer and staff from the Guangzhou branch of the U.S. Patent and Trademark Office plan to attend the this year's expo September 19-21.

14. (SBU) In addition, Guo Bujiang of the Shunde Intellectual Property Office (IPO) explained that his office had created a website that disseminates available patent information for use by local innovators who might wish to develop new applications or build on existing technologies. Guo argued that the website and other government outreach programs have been instrumental in transforming Shunde's household appliance industry into the world's leading producer of microwave ovens; it has also been a top producer of other categories, from air conditioners to small kitchen appliances, in the last couple of years.

15. (SBU) Shunde's government helps subsidize local firms interested in registering their trademarks overseas. AIC's Li told us that although Shunde firms had registered numerous brands in China, local exporters were known to face IPR problems in overseas markets after failing to properly register their marks. He argued that high registration costs overseas were part of the problem, noting that fees in China - just RMB 2,000 (about USD 300) - were about one-tenth the cost of registration fees in the United States. (Comment: Various factors affect the cost of registering and protecting a trademark in different jurisdictions. Li's description is oversimplified and ignores these factors. End comment.)

16. (SBU) In addition, Yang Xixue of the Technical Supervision Bureau (TSB) said his agency worked closely with manufacturers to improve quality in support of brand development. He noted that TSB also discouraged substandard firms from production that might damage the reputation of other firms in the area.

And Rights Enforcement, Too

17. (SBU) Officials argued that increased attention to IPR protection had also been a factor in the successful development of local brands. They acknowledged having received serious complaints about IPR enforcement in the mid-1990s shortly after launching the new brand promotion strategy. However, they claimed that stronger enforcement efforts had led to a decline and subsequent stabilization in the level of complaints that has lasted for 10

years. The Shunde government also registered geographic trademarks for each of Shunde's major districts, as well as a "Made in Shunde" mark. They believe IPR enforcement improved as local officials became more interested in protecting each new local mark.

Midea and Galanz - Contrasting Brand Strategies

18. (SBU) Midea and Galanz are home appliance manufacturing giants headquartered in Shunde, but they place different value on the importance of developing their own brands. Han Qian, Overseas Marketing Manager for Midea, told us his company has steadily built its brand and increased market share with several major appliance product lines. Midea, which currently employs more than 100,000 workers across China and in Vietnam, started making fans and air conditioners in the 1980s and expanded more recently into kitchen appliances. Despite the strength of its domestic brand sales, Han

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said top-level executives continue to focus on original equipment manufacturing (OEM) for foreign brand-name firms in overseas markets rather than aggressive expansion of the Midea brand internationally. They see the OEM business as less risky and more flexible than building and managing independent sales, marketing and distribution networks in other countries. OEM sales currently account for 90 percent of Midea's overseas sales. It plans to test Midea-brand products only in its strongest markets, like Southeast Asia.

19. (SBU) For Galanz, however, developing its own IP is more central to its strategy for international expansion. The company, which employs 40,000, is the world's largest producer of microwave ovens (despite a relatively recent transition from apparel manufacturing to appliances in 1993). Vice Director for Foreign Trade Jack Lau told us the company's brand was "almost more important than its products." Galanz has registered its trademark in over 100 countries and jurisdictions around the world. According to Lau, innovation is key to the company's success. Although it had initially obtained licenses from Toshiba technologies, Galanz now develops and manufactures its own components without reliance on licensed IP. A headquarters staff of ten works full-time on patent protection and brand management, with most domestic Chinese IPR disputes resolved by negotiated settlement. Galanz opened its first U.S. office in Los Angeles in 1999, and many mid- and senior-level managers have spent time working there and learning about the U.S. market. Lau said that Galanz microwave ovens accounted for approximately 40 per cent of the U.S. market. The company also has offices in several other countries and Lau pointed out that international IPR disputes are handled according to local law and practice.

Comment - A Model for South China

110. (SBU) Although city officials were reluctant to provide details on IPR enforcement challenges, it is clear that an appreciation of the economic value of protecting intellectual property rights has taken root in this factory town. Officials are proud of their past successes and expressed optimism that their strategies are not only good for Shunde but should also be applied in other jurisdictions. They believe this will happen as officials are rotated, and word of IP-related best practices circulates to other parts of south China. Shunde's interagency IP working group displayed a willingness to engage in bilateral discussion that Post hopes might be a starting point for future IPR cooperation. We plan to work with other communities as part of our effort to have deeper provincial-wide engagement on this subject.

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